CHAPTER 1

Positioning, Targeting, and Segmentation

Positioning and segmentation are the real core of what makes the entrepreneurial venture work or not work. All of the venture's important decisions and tactics are critically dependent on these basic decisions. A key question is:

What am I selling to whom?

Positioning is how the product or service is to be perceived by a target market compared to the competition. It answers the question: "Why will someone in the target market(s) buy my product or service instead of the competition's?" An equivalent question is: "What should be the perceived value of my offering compared to the competition's?"

Segmentation answers the question: "Which is (are) my target market(s)?" Entrepreneurial ventures typically begin life with one product or a small line of related products. The answers to these positioning and segmentation questions are not easy, but are crucial to the venture's success. Two related concepts of management strategy must be considered to most productively answer the positioning question. These include the venture's *distinctive competence,* and its *sustainable competitive advantage.* Once the positioning decision is made, the entrepreneur can tackle all the other marketing-related decisions. If the other marketing decisions are made before the positioning and targeting is defined, there is a danger that the venture will not be perceived in the market as well as it could be. The sequence of decisions for an entrepreneurial venture is summarized in Figure 1.1.

This book is organized like Figure 1.1. We first discuss the positioning, targeting, and segmentation decisions and their relationship to competitive strategy. We then cover how all of the marketing-related decisions should be made in light of the positioning and segmentation decisions. Please keep in mind that the real decisions are not made in as logical a manner as might be implied by Figure 1.1. There should be constant feedback and adjustment of the positioning and segmentation decisions as other elements of the marketing mix are evaluated, tested, and implemented and as the competition and environment change and evolve.

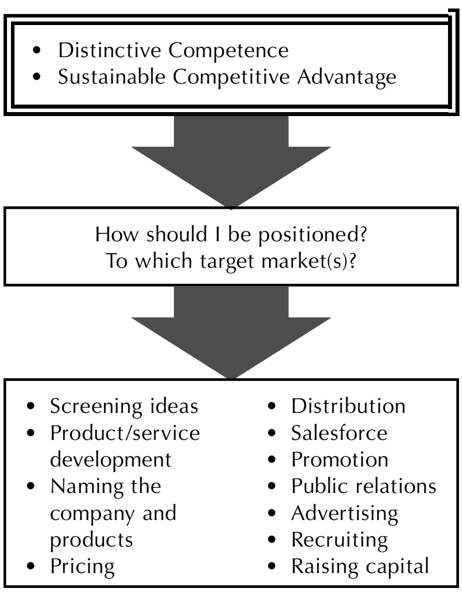

Figure 1.1 Market oriented strategy and tactics.

Distinctive Competence and Sustainable Competitive Advantage

Sustainable competitive advantage is the Holy Grail that most entrepreneurs continually pursue. If a way can be found to continually be ahead of competition, then the venture will probably return higher than normal returns to its owners. Being ahead of competition means that the venture can more easily sell more, and/or charge higher prices, and/or have lower costs than "normal" firms. Let's look at competitive advantage from an entrepreneurial marketer's point of view. As you will see, the entrepreneurial marketer's point of view is the customer's point of view. Your competitive advantage is why the customer or potential customer will more likely buy from you than from your competition. If you have succeeded in developing a competitive advantage that is sustainable from competitive encroachment, you are creating sustainable value.

Distinctive competence is how some people refer to the advantage that is the source of the sustainable competitive advantage. If the advantage is sustainable, then your venture has something that is difficult for your competition to emulate and must be somewhat distinctive to your venture. What are sources of distinctive competence for entrepreneurs that might be sources of sustainable competitive advantage? Creative entrepreneurs seem to be finding new distinctive ways to get customers to prefer them to the competition. Here are some of them:

- Many companies use technology to obtain competitive advantage. Patents and trade secrets are weapons to keep the competition from imitation. For software companies, source code for their products is a key competitive advantage. Priceline.com has a patent on their method for having consumers try to name their own price for goods and services. This is a great source of sustainable competitive advantage.
- Other companies may rely on excellent design, perceived high quality, or continual innovation, as distinctive competencies.
- Others will use excellent customer service by loyal employees who have adopted corporate service values. Southwest

Airlines is an excellent example of a venture that differentiates itself from competitors with both excellent customer service and technology for scheduling and turning flights around. Many consumers fly Southwest, not only because it is economical, but because it is fun. Many other airlines have tried to imitate Southwest and have been unsuccessful.

- Reputations and other differences in customer perception of products, services, and companies can be extremely valuable sources of sustainable advantage. If consumers perceive you as being a preferable source, they will be more likely to choose your products or services. Dell's service reputation as well as its business-to-business salesforce have succeeded in getting many customers to perceive them as a trustworthy, reliable resource for computers and related equipment and services. As a result, Dell has also been difficult to compete with.

All of these are ways that entrepreneurs search for sustainable competitive advantage. They relate to how customers choose one product or service versus another. Key positioning and segmentation decisions are intertwined with why customers will choose you versus your competition. Thus, the positioning decision is best made to leverage the distinctive competence of the venture. We first discuss a related key strategic decision: Which customers are you targeting with your positioning?

Segmentation and Targeting

The positioning and segmentation decisions are typically developed together. Although we will take them one at a time, we consider the interrelationships as we go. Conceptually, segmentation is a process in which a firm's market is partitioned into submarkets with the objective of having the response to the firm's marketing activities and product/service offerings vary greatly across segments, but have little variability within each segment. For the entrepreneur, the segments may in many cases only number two: (1) the group we are targeting with our offering and marketing activity and (2) everyone else. The targeted segment(s) will be related to the product/service offering and the competitive strategy of the entrepreneur.

There are some very important questions that need answers as part of the selection of target market segment(s).

The most important question is: *Does the target segment want the perceived value that my positioning is trying to deliver more than other segments*? Sometimes targeting may involve segments who differ on response to other elements of the marketing mix, however most smaller, entrepreneurial ventures differentiate target segments on the value they place on the differential benefits they perceive the firm to deliver. If a firm can target those people who value their offering the highest compared to the competition, it has many benefits including better pricing and higher margins, more satisfied customers, and usually a better barrier to potential and actual competition.

Almost as important to profitable segmentation is the question: *How can the segment be reached? And how quickly*? Are there available distribution or media options or can a self-selection strategy be used? Are the options for reaching the segment cost effective? Can enough of the segment be reached quickly enough so that you can be a leader before competitors (particularly on the Internet) can target the same segment?

Another question is: *How big is the segment*? If the segment is not big enough in terms of potential revenue and gross margin to justify the cost of setting up a program to satisfy it, it will not be profitable.

Other questions to keep in mind include: *What are likely impacts of changes in relevant environmental conditions (e.g., economic conditions, lifestyle, legal regulations) on the potential response of the target segment? What are current and likely competitive activities directed at the target segment?*[1]

Virtual Communities—The Ultimate Segment?

The Internet has fostered thousands of virtual communities. These are made up of groups of people who are drawn together online by common interests. Just as enthusiasts for certain activities (such as hobbies, sports, recreation) have gotten together in metropolitan areas for years, the Internet lets enthusiasts from all over the world "get together" virtually. The same phenomenon holds for business users of certain software or specialized equipment. Users or potential users like to get together to help each other with mutual solutions to common problems, helpful hints, new ideas, or evaluations of new products that might help the community members. It is much easier to post notices on an online virtual bulletin board than to physically go to a meeting. A virtual community member can interact with his counterparts any time of the day or night and reach people with very similar needs and experiences.

These virtual communities can be an entrepreneur's penultimate segment. In terms of the previous segmentation selection questions, the answers to the first two questions are almost part of the definition of an online virtual community. If your product or service offering is tailored (or as importantly, is *perceived* to be tailored) to the members of a virtual community, then it will be positioned as very valuable to that segment compared to any other group. The size of the segment is easily determined as the size of the virtual community.

The incentives for entrepreneurial companies to get involved with virtual communities are great, but it is not a one-way street. All elements of the marketing program need to be cleverly adapted to the new segmentation environment. The challenges of marketing in virtual communities are summarized nicely by Mckinsey consultants John Hagel III and Arthur G. Armstrong:

> Virtual communities are likely to look very threatening to your average company. How many firms want to make it easier for their customers to talk to one another about their products and services? But vendors will soon have little choice but to participate. As more and more of their customers join virtual communities, they will find themselves in "reverse markets"—markets in which customers seek out vendors and play them off against one another, rather than the other way around. Far-sighted companies will recognize that virtual communities actually represent a tremendous opportunity to expand their geographical reach at minimal cost.

An Entrepreneurial Segmentation Example—Tandem's East

A clever entrepreneur can use target segmentation as a prime reason for beginning a venture. An example is Mel Kornbluh who began a company called *Tandem's East* in his garage in the late 1980s. Mel is a specialist in selling and servicing tandem bicycles—bicycles built for two (or three or four). Mel realized that there was a segment composed of bicycling couples who would appreciate the unique benefits of tandem riding. It is the only exercise that two people can do communicating while they exercise, appreciating nature together, even though they may have very different physical abilities.

When he began his venture, intuitively Mel had very good answers to the set of questions. There were actually two target segments that Mel could target. The first was existing tandem enthusiasts—those who already had a tandem and would need an upgrade or replacement. The other target segment was relatively affluent bicycling couples who had trouble riding together because of differences in physical abilities. The couples needed to be affluent because tandems are relatively expensive when compared with two regular bicycles. They are not mass-produced and do not take advantage of mass scale economies.

At the time he started, there was no one on the East Coast who had staked out a position as a specialist in tandems. Because tandem inventory is expensive and selection is very important to potential buyers, Mel could establish barriers to potential competitors by being first to accumulate a substantial inventory. He was also able to establish some exclusive arrangements with suppliers by being first in the area and offering them a new outlet. Thus, his distinctive competencies, tandem knowledge, a substantial inventory, and some exclusive lines were the source of sustainable competitive advantage.

It was relatively easy for Mel to reach both of his segments. Existing tandem enthusiasts were members of the Tandem Club of America that has a newsletter they publish bimonthly. It was relatively inexpensive to advertise in the newsletter that reached his first segment precisely. Not only did it reach the segment, but also because the readers were already enthusiasts, they paid attention to every page of the newsletter. Over time, Internet user groups dedicated to tandeming also formed. They were also natural vehicles for effectively reaching the segment.

His second segment was also relatively easy to reach cost effectively. Affluent bicycling couples read cycling magazines—the major one being *Bicycling Magazine*. Again, because they were enthusiasts, the target segment paid a lot of attention to even small ads. This segment also attended bicycling rallies and organized rides.

Both segments were way larger then he needed to make the business viable. With very small response rates in either segment, he could afford to pay his overhead and begin to accumulate a suitable inventory. In fact, his advertising costs were significantly under 10 percent of revenues, an extremely cost effective way to reach his segment.

Thus, Tandems East began and flourished by creatively seeing target segments that valued what Mel was selling. The segments were substantial, very easily reached cost effectively, and competitive barriers could be erected.

An Entrepreneurial Segmentation Audit

Appendix A is a segmentation audit that the entrepreneur can use as a checklist to make sure that he or she has considers all elements of segmentation. For an entrepreneur, many of the issues in the audit can cost effectively be answered only qualitatively. However, not considering these issues can cause big problems.

For perspective, our survey shows that 12 percent of the Inc. 500 CEOs did significant segmentation studies, but only 2.3 percent of the non-Inc. entrepreneurs did such studies. So both groups could profit from becoming more sophisticated in their segmentation.

One of the audit's most important issues is: *How well is the segmentation reflected in all the other marketing decisions that the venture makes?* The goal of the rest of this book is to flush out the issues. How does segmentation and targeting relate to all the other elements of the marketing mix for an entrepreneurial venture?

The interrelated positioning decisions to which we turn next are fundamental to segmentation and targeting.

Positioning

Positioning answers the question: *Why should a member of the target segment buy my product or service rather than my **competitor's**?* A related positioning question is: *What are the unique **differentiating** characteristics of my product or service as **perceived** by members of the target segment(s)?* The bold words in these positioning questions are crucial for effective implementation. First the word **perceived** must be analyzed. It is obvious that people make decisions based only on what they perceive. Many entrepreneurial firms are happy when they have developed products or services that are *actually* better than competition on characteristics that they know should be important to people in their target market(s). What they forget is that the job is not done until the targeted people actually **perceive** the differences between their product and competition. In fact, on the Internet, many companies try to gain the perception that they're better long before they can deliver on that in reality.

One of the hindrances to effective positioning is that most humans cannot perceive more than two or three differentiating attributes at a time. It is important that the targeted positioning be easy to remember. If there are too many differentiating attributes, the potential consumer can get confused. The entrepreneur's job is to isolate the most important differentiating attributes of his or her offering and use those in all the elements of the marketing mix. In many cases, it is very cost effective to do concept testing or other research with potential consumers to isolate the best combination of attributes (see the concept testing section that follows). In other cases, the entrepreneur can instinctively isolate a good combination of attributes.

Entrepreneurs, who have been successful, may overstate how easy it was to get a good combination of attributes for their positioning. Companies such as Starbucks (just great tasting, excellent quality coffee) or Apple Computer (fun and easy to use) were successful at least partly because of very effective positioning. What has not been documented has been how many entrepreneurial ventures failed (or were not as successful as they could have been) because their positioning and associated target segments weren't very effective. Venture capitalists' estimate that as many as 60 percent of failures can be prevented by better prelaunch marketing analysis. This underscores how important it is to get your positioning right and testing with real consumers that it is right.

A big mistake many entrepreneurs make is to position based on *features* of their product offering compared to their competitors. It's amazing how many entrepreneurs we have encountered who have great ideas that are based on technical features that are somehow better than their competitors. The fundamental paradigm that *customers don't buy features, they buy benefits* has been lost on many entrepreneurs. Even more precisely, customers buy based on *perceived benefits.* Not only does the entrepreneur need to develop the best set of benefits versus the competition; she must also somehow get the customers to perceive these benefits.

In his book, *What Were They Thinking? Lessons I've Learned From Over 80,000 New Product Innovations and Idiocies,* Robert McMath also says that communicating features instead of perceived benefits is "one of the most common mistakes marketers make."[2] He describes a training film in which British comedian John Clease illustrates how a surgeon might explain a new surgical procedure to a patient lying in a hospital bed:

> Have I got an operation for you. Only three incisions and an Anderson Slash, a Ridgeway stubble-side fillip and a standard dormer slip! Only five minutes with a scalpel; only 30 stitches! We can take out up to five pounds of your insides, have you back in your hospital bed in 75 minutes flat, and we can do 10 of them in a day.[3]

The surgeon is concerned only with technical features that he as producer (entrepreneur) is excited over. The customer has very different concerns. All that the customer probably wants to know is whether he'll get better, what his risks of complication are, and whether he'll experience pain.

An Entrepreneurial Positioning Example—the Wharton School

The following example is an excellent example of very effective positioning and entrepreneurial marketing. *Business Week* recently ranked the Wharton MBA program first in the United States for the third time. This rating can be traced to the entrepreneurial marketing thinking and positioning insight of Professor Jerry Wind, a colleague in the Marketing Department of the Wharton School. Jerry headed the faculty-student-alumni-administration committee that developed the new Wharton curriculum in the early 1990s. When the faculty adopted the innovative new curriculum, Jerry was the person who did most of the public relations interviews following the approval.

In every interview Jerry repeated four key phrases over and over. Wharton will train managers who are *global, cross-functional, good leaders, and leveraged by technology.* These benefits were designed into the new curriculum because the school's research showed them to be very valuable to Wharton's various constituencies and not perceived as delivered by the other premier business schools. All of the other Wharton administrators who spoke to the press took their cue from Jerry and also emphasized those four attributes over and over. Because these all were fairly new concepts for business schools to adopt and because Wharton was the first major business school to overhaul its curriculum, all the major business media picked up the story and gave it emphasis. Most of the target segments that Wharton wanted to influence changed their perception of Wharton's position because of this media blitz.

There was a perceptual vacuum on most of those attributes that Wharton was able to fill. Once a perception has been lodged in someone's mind, it is not easily changed. Thus, in the competition among business schools, it has been very difficult for a major business school to capture from Wharton the public's perception of distinctiveness on any of those four dimensions.

There was a lot more to the new curriculum than the four phrases that were emphasized. However, because Jerry is a positioning expert, he knew that the target markets would be able to perceive only a limited number of differentiating attributes. The market research done by Jerry's committee helped them to decide the four most important new differentiating attributes to stress. If the school had tried to publicize all of the new attributes of the new curriculum, the message would have been diluted and the school would not have been able to reach its preeminent perceptual position with its target markets.

Again for perspective, 53 percent of the Inc. 500 CEOs did many positioning studies, but only 26 percent of the non-Inc. 500 did them. One of the reasons behind the Inc. 500 success could be their positioning.

Distinctive Competence, Sustainable Competitive Advantage, and Positioning

Now that we have explored segmentation and positioning, their relationship to the strategic concepts of distinctive competence and sustainable competitive advantage should be easy to understand. The fundamental positioning and segmentation decisions of *What am I selling to whom?* cannot be changed easily. It takes typically more effort to try to change a positioning than to attempt to establish a new one in a vacuum. To change a positioning means undoing one perception and replacing it with another. In the Wharton School example, the school had to develop or have internally strength in areas that would lead to perceptions of "global, cross-functional, good leaders and leveraged by technology." These should be distinctive competencies that differentiate Wharton from its competitors and should be such that they would be sustainable from competitive inroads.

For entrepreneurial companies, the intertwined positioning, distinctive competence, and sustained competitive advantage decisions are the most important strategic decisions made before beginning a new business or revitalizing an older business. The positioning and segmentation decisions are just the public face put on the distinctive competence and sustainable competitive advantage decisions. If the market doesn't value "what they perceive to be the distinctive competence of your firm versus the competition" (another way of defining positioning), then the positioning will not be successful. Furthermore, since it is difficult to change perceptions, the perceived distinctive competence should be sustainable over time. Thus it is crucial to get the positioning reasonably close to right *before going public the first time*. In Chapter 2 we will explore cost-effective ways of getting market reaction to positioning options before going public.

Orvis Company—Excellent Entrepreneurial Positioning

The Orvis Company has done an excellent job of capitalizing on a unique positioning in a very competitive industry. They sell "country" clothing, gifts, and sporting gear in competition with much bigger brands like L.L.Bean and Eddie Bauer. Like their competitors, Orvis sells both retail and mail order. How is Orvis different? They want to be perceived as the place to go for all areas of fly-fishing expertise. Their particular expertise is making a very difficult sport "very accessible to a new generation of anglers."[4] Since 1968, when their sales were less than $1million, Orvis has been running fly-fishing schools located near their retail outlets. Their annual sales are now over $350 million. The fly-fishing products contribute only a small fraction of the company's sales, but the fly-fishing heritage adds a cachet to all of Orvis's products. According to Tom Rosenbauer, beginner fly fishermen who attend their schools become very loyal customers and are crucial to continuing expansion of the more profitable clothing and gift lines. He says, "Without our fly-fishing heritage, we'd be just another rag vendor."[5]

The Orvis positioning pervades their entire operation. Their catalog and their retail shops all reinforce their fly-fishing heritage. They also can use very targeted segmentation to find new recruits for their fly-fishing courses. There are a number of targeted media and public relations vehicles that reach consumers interested in fishing. Their margins are higher than the typical "rag vendor" because of their unique positioning. The positioning is also defensible because of the consistent perception that all of their operations have reinforced since 1968. A competitor would have a very difficult time and large expense to reproduce the Orvis schools and retail outlets. It also would be difficult for a competitor to be a "me too" in an industry where heritage is so important. The positioning and segmentation decisions Orvis made in 1968 probably added close to a billion dollars of incremental value to their venture since that time. That value is our estimate of the difference of Orvis's actual profit since 1968 compared to what the venture's profitability might have been had they just been "another rag vendor."

Positioning, Names, and Slogans

Many entrepreneurs miss positioning opportunities when they name their products, services, and companies. As we will discuss in depth later, entrepreneurs have very limited marketing funds to educate their target markets about the positioning of their products and services. If the names chosen do not themselves connote the appropriate positioning, then the entrepreneur has to spend more funds to educate the market in two ways instead of one. They have not only to get potential customers to recognize and remember their product name, but they also have to educate them about the attributes and benefits of the product that goes with the name. Many new technology and Internet based ventures have been very intelligent and creative in their names that do connote the appropriate positioning. Companies such as CDNow (CDs on the Internet), ONSale (online Internet auctions), Netscape Communications (Internet browsers), @Home (using existing TV cable for home Internet connections), and Reel.com (movie sales on the Internet) make it easy for potential customers to remember what they do and at least part of their positioning. On the other hand, all you know from the name Amazon.com is that it is an Internet company. The fact that it sells books is not evident from its name. Educating consumers needs to be done with other marketing activities.

Some fortunate companies have gone even further by making their names not only support their positioning, but also simultaneously let their potential customers know how to get in touch with them (for example, 1-800-FLOWERS, 1-800-MATTRESS, Reel.com). Some entrepreneurs have registered Internet locations that will be valuable to others who have not yet realized their value. These entrepreneurs intend to sell those locations to the companies who will find them valuable. These fast-moving entrepreneurs have already taken Internet sites for all of the potential political candidates for the U.S. presidential election in 2004.

If the name of the company or product is not enough to position it in the customer's mind, then the next need is for a slogan or byline that succinctly and hopefully memorably hammers home the positioning. If the positioning has been done well, then a slogan or byline can in many cases fairly completely communicate the appropriate attributes. One good example is Alan Marcus & Co. They advertise with very small space ads in the *Wall Street Journal* with their slogan and byline always the same. The ads always begin with "America's Largest Fine Watch, Diamond, and Jewelry Discounters" and have "Elegant Price Cutters since 1973" below the company name. Nothing else really needs to be said to communicate what the company does, who the company is, and why people should buy from it. The positioning inherent in these two bylines is a good example of concentrating on only the few, most important, attributes to stress in order to position the company. BMW has been using "the Ultimate Driving Machine" for many years to differentiate itself as a performance automobile. Michelin uses "Because so Much is Riding on Your Tires" to try to differentiate itself as better on the safety attribute for tire buyers.

Just as brevity and simplicity are valuable in positioning, they are also as valuable in slogans and bylines. The slogan that goes with a company or product name should be one that can be retained for quite a long time, as long as the positioning will be in force. Robert Keidel proposed other ground rules for effective slogans: Avoid cliches (e.g., "genuine" Chevrolet, Miller); be consistent; use numbers, but have them backed up; be brief; take a stand; and make it distinctively your own.[6] All of these rules are consistent with our effective positioning paradigm and make good sense.

Summary

Each venture must answer the *What am I selling to whom?* question before it can create successful marketing strategy and tactics. Segmentation selects the subgroup(s) of all consumers to whom we think we should sell our products. Positioning tells members of the segment why they should buy our product or service, vis-à-vis any competitors. The positioning and segmentation decisions are intertwined with strategy decisions about distinctive competence and sustainable competitive advantage. The Internet creates the opportunity for the address (URL) to be of great service in positioning, since the name (e.g., reel.com, or etoys.com) can be both descriptive and informative.